

## Independent Auditors' Report

Mr. Martin J. Benison, Comptroller  
The Commonwealth of Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts ("Commonwealth"), as of and for the year ended June 30, 2002, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit any of the institutions of higher education nor their blended component units, which represent 63.5% percent and 49.6% percent, respectively, of the assets and revenues of the Business-Type Activities within the Statement of Net Assets of the Government-wide Financial Statements. We also did not audit 98.9% and 100% respectively of the total assets and total revenues of the Commonwealth's Component Units (as presented in the Statement of Net Assets and the Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the Massachusetts State Lottery Commission, the financial statements of which reflect .3% and 15.3% of the assets and the revenues, respectively of the Governmental funds (as presented in the Combining Balance Sheet of the Governmental Fund Financial Statements) and .1% and 15.2% of the total assets and total revenues, respectively of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the Owner Controlled Insurance Program, the financial statements of which represent 2.6% and .03% of the assets and the revenues, respectively of the Governmental funds (as presented in the Combining Balance Sheet of the Governmental Fund Financial Statements) and 1.1% and .03% of the total assets and total revenues, respectively of the Governmental Activities (as presented in the Statement of Net Assets and Statement of Activities, respectively, of the Government-wide Financial Statements). We did not audit the financial statements of either the Pension Reserve Investment Trust or the Massachusetts Municipal Depository Trust, the financial statements of which represent 87.9% and 100% of the total assets and total additions of the Fiduciary Fund Types (as presented in the Government-wide Financial Statements). Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the entities not audited by us included in the the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Massachusetts, is based solely on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth, as of June 30, 2002, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1, during the fiscal year ended June 30, 2002 the Commonwealth adopted the provisions of GASB Statements No. 34, *Basic Financial Statements – and Management Discussion and Analysis – for State and Local Governments*, GASB Statement No. 35, *Basic Financial Statements – and Management’s Discussion and Analysis – for Public Colleges and Universities*, GASB Statement No. 37, *Basic Financial Statements and Management Discussion and Analysis for State and Local Governments; Omnibus*, and GASB Statement No. 38, *Certain Financial Statement Note Disclosures*. The implementation of these standards changed the basic financial statement reporting model to include government-wide, full accrual statements and created a modified reporting of the fund perspective financial statements. Implementing these standards also required reporting of infrastructure assets, changed the method of reporting cash flows from the indirect method to the direct method and included the requirement for reporting a Management’s Discussion and Analysis as required supplementary information. Beginning net asset and fund balances have been restated to account for the implementation of these accounting standards.

Also as discussed in Note 1, beginning net assets and fund balance have been restated to account for the correction of an error in the Internal Service Funds in the prior year.

The Management’s Discussion and Analysis, on pages 19 through 30, as well as the Combined Schedule of Revenues, Expenditures and Changes in Fund Balance –Statutory Basis – Budget and Actual and notes thereto, on pages 104 through 106, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. Such information is the responsibility of management. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth's basic financial statements. The Combining Balance Sheet – Non-major Governmental Funds and the Combining Statement of Revenues, Expenditures and Changes in Net Assets – Non-major Governmental Funds, presented as Other Supplementary Information, are presented for the purpose of additional analysis and are not a required part of the basic financial statements. This supplementary information is the responsibility of the Commonwealth's management. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The letter of transmittal and the information provided in the statistical section of this report are presented for the purpose of additional analysis and are not a required part of the basic financial statements. Such additional information has not been subjected to the auditing procedures applied by us and other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

December 30, 2002